

E-015/M-94-713 ORDER APPROVING AMENDMENT TO ELECTRIC SERVICE  
AGREEMENT WITH ADDED FILING REQUIREMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm  
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Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Request by Minnesota Power  
Company for an Amendment to Its Electric  
Service Agreement with National Steel  
Company and National Steel Pellet Company

ISSUE DATE: October 28, 1994

DOCKET NO. E-015/M-94-713

ORDER APPROVING AMENDMENT TO  
ELECTRIC SERVICE AGREEMENT WITH  
ADDED FILING REQUIREMENT

**PROCEDURAL HISTORY**

On August 1, 1994, Minnesota Power (or the Company) filed a petition seeking approval of an amendment to its Electric Service Agreement with National Steel Company and National Steel Pellet Company (National Steel).

On September 1, 1994, the Department of Public Service (the Department) filed comments recommending approval of the proposed amendment with one added requirement. On the same date, comments in opposition to the proposal were filed by a group of Minnesota Power's large industrial customers known as the Large Power Intervenors or LPI<sup>1</sup> and by Eveleth Expansion Company<sup>2</sup>.

Minnesota Power and the Department filed reply comments on September 12, 1994.

The matter came before the Commission for consideration on October 13, 1994.

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<sup>1</sup> The Large Power Intervenors consisted of Blandin Paper Company, Expansion Company, Eveleth Taconite Company, Hibbing Taconite Company, Inland Steel Mining Company, and USX Corporation.

<sup>2</sup> Although part of the Large Power Intervenors, Eveleth Expansion Company also filed comments on its own behalf.

## **FINDINGS AND CONCLUSIONS**

### **I. FACTUAL BACKGROUND**

On July 30, 1993, Minnesota Power and National Steel signed an amendment to their existing Service Agreement at an 85 MW Service Requirement level.

As a result of a strike at its Keewatin mining and pellet production facilities, National Steel was forced to reduce its Contract Demand to 20 MW. In October, 1993, National Steel shut down its Keewatin facilities.

In July, 1994, National Steel reached a tentative agreement with the striking union, contingent upon National Steel's obtaining cost reductions from its resource, material and service providers. Soon after, Minnesota Power and National Steel began negotiating an amendment to their Service Agreement which would include the terms necessary to reopen the Keewatin facilities.

On July 29, 1994, the parties signed an amendment to their Service Agreement. The amendment was contingent upon Commission approval of Minnesota Power's request for authority to offer 100 MW of additional interruptible service at a discount of \$5/kW/month. Docket No. E-015/M-94-718. The Commission approved the request at its October 13, 1994, meeting.

### **II. MINNESOTA POWER'S PROPOSED CONTRACT AMENDMENT**

Minnesota Power's proposed amendment of its Service Agreement with National Steel contains the following major features:

1. The Service Agreement is extended from July 31, 1994 to at least October 10, 2004, with additional interruptible service-related obligations continuing through April, 2010.
2. The amendment establishes a take-or-pay Contract Demand level of 63 MW from November, 1994, through October, 2004, with a one-time opportunity for an upward adjustment.
3. The amendment provides that National will purchase take-or-pay Service Requirements of 22 MW during each month through October, 2004.
4. The amendment provides National Steel with Curtailable Service to cover its volatile energy needs during September and October, 1994, the startup period for the Keewatin facilities. Curtailable Service may be interrupted prior to any interruptions to Minnesota Power's Large Power Interruptible customers. As a production incentive, National Steel will receive billing credits in the total amount of \$1.5 million against September and October 1994 bills, provided National Steel reaches 50 MW and 70 MW of Measured Demand in September and October, respectively.

5. Minnesota Power will make up to \$7.2 million in CIP funds available to National Steel, to the extent that National Steel's proposed CIP projects are approved by the Commissioner of the Department.
6. If National Steel reduces its Service Requirement by identifying a new taconite production process and installing necessary equipment, Minnesota Power and National Steel will initiate negotiations regarding the appropriate level of a new Service Requirement. National Steel must continue to use the plant's maximum production capacity.

### **III. COMMENTS OF THE PARTIES**

#### **A. Minnesota Power**

Minnesota Power stated that the proposed amendment will provide the Company with long-term revenue assurance and reduce its revenue requirement.

Minnesota Power argued that the proposed amendment is not discriminatory because the terms offered to National Steel are available to the Company's other Large Power customers.

Minnesota Power stated that its Curtailable Service will enable National Steel to restart its Keewatin facilities, without requiring the Company to purchase more capacity.

Minnesota Power pointed to the economic benefits of reopening the Keewatin facility. Minnesota Power argued that the direct and indirect economic benefits to the area are strong reasons for approving the proposed amendment necessary for the plant's reopening.

#### **B. The Department**

The Department stated that the length of the proposed contract extension and the size of the new commitment will improve Minnesota Power's revenue stability.

The Department did not believe that the contract's proposed terms, viewed as an overall negotiated package, are unreasonably discriminatory under Minn. Stat. § 216B.03. The 100 MW of interruptible service will be available to all Large Power customers; National Steel will compete along with the others for allocation. The Department argued that the Curtailable Service offering is not discriminatory under the particular circumstances of National Steel's plant startup needs.

According to the Department, the CIP funding provision is appropriate because the same terms are available to other Large Power customers and because the Company is not guaranteeing that the Commissioner of the Department will approve the projects.

While the Department recommended approval of the new technology provision, it also recommended that the Commission require a further filing. The Company should be required to submit documentation showing that National Steel has maintained the plant's maximum production capacity prior to entering into negotiations with Minnesota Power regarding a revised service requirement due to technological developments.

#### **C. LPI**

LPI argued that Minnesota Power's proposal amounts to a discriminatory rate under Minn. Stat. § 216B.03. According to LPI, all other Minnesota Power ratepayers will pay for the Curtailable Service for National Steel; this part of the amendment amounts to a payment to National Steel for extending the Service Agreement.

LPI argued that the CIP reimbursement term is discriminatory: while it is offered to all Large Power customers, it is really only available to those who are willing and able to commit to long-term contracts. According to LPI, National Steel should pay for its own CIP projects, according to the normal CIP procedure.

#### **D. Eveleth**

Eveleth opposed the proposed amendment, because it conditions eligibility for interruptible service and the allocations for the 100 MW of interruptible service upon commitments to long-term contracts. According to Eveleth, as a high-cost producer of taconite it is vulnerable to closing and thus unable to commit to long-term contracts. The Minnesota Power/National Steel contract therefore discriminates against Eveleth.

### **IV. COMMISSION ACTION**

#### **A. Overall Commission Decision**

The Commission agrees with the Department that the Minnesota Power/National Steel contract amendment must be viewed as a whole, in the context of both Minnesota Power's and National Steel's needs and circumstances. The amendment represents an effort by the parties to engage in creative negotiations and thereby craft a mutually beneficial long-term contract. The contract will provide Minnesota Power with long-term revenue stability, enabling it to reduce its revenue deficiency and to engage in long-range planning. The amendment will enable National Steel to restart its Keewatin plant in the midst of a depressed industry and geographical area. Restarting the idled plant will significantly boost area employment, add to tax revenues, and indirectly benefit area merchants and service enterprises.

Having analyzed the terms and conditions of the proposed amendment in the context of these parties' circumstances, the Commission finds that the contract terms are appropriate and not unreasonably discriminatory. The Commission will discuss three aspects of the amendment which were of particular interest to the parties: the Curtailable Service provision, the effect of the amendment on high cost taconite producers, and the CIP funding offering.

## **B. Curtailable Service Provision**

Parties objected to the fact that the Curtailable Service provision is offered only to National Steel during its two-month plant restart period. The Commission finds that this contract provision, viewed in the context of the entire agreement, is appropriate. While the term is only offered to National Steel during the two month period, it is offered in response to the unique circumstances of National Steel's volatile energy needs during startup. The Commission notes that Minnesota Power would be required to offer the same provision to any other Large Power customer in the same circumstances.

The Commission finds that the Curtailable Service provision does not represent a discriminatory subsidy, but rather a balanced contract term. The Curtailable Service term is offered for a very limited time and enables Minnesota Power to reap the benefits of long-term revenue stability, without the need to purchase further capacity. While National Steel will receive a discount during the curtailment period, its energy rate will exceed that paid by interruptible customers and it will take priority after interruptible customers.

The Commission finds that the Curtailable Service provision is reasonable.

## **C. Effect of the Contract Amendment on High Cost Taconite Producers**

Eveleth argued that the contract unreasonably discriminates against it, because as a high cost taconite producer it is unable to enter into similar long-term commitments.

Minn. Stat. § 216B.03 requires that electric utility's rates "...shall not be unreasonably preferential, unreasonably prejudicial or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of customers."

The Commission finds that the proposed contract amendment is not unreasonably discriminatory, preferential, or prejudicial. Minnesota Power's proposed 100 MW of interruptible service will be available to all qualified Large Power customers, as well as to National Steel. All customers in this class are offered the same terms under which they must compete for power allocation.

Because Minnesota Power plans to enter into long-term sales of the power freed up through the offering of interruptible service, it needs long-term contract commitments from its interruptible customers. Minnesota Power's requirement of long-term contract commitments therefore does not unreasonably discriminate against high-cost producers such as Eveleth.

## **D. CIP Funding Provision**

LPI argued that the CIP funding provision is a distortion of the CIP concept which amounts to a subsidy of National Steel.

The Commission finds that the CIP provision in the proposed contract amendment does not alter or misuse the CIP process. The contract term does not guarantee funding through CIP, only the availability of Minnesota Power's funds if National Steel's CIP projects are approved by the Commissioner of the Department. Most significantly, the same terms are available to any Large Power customer on an equal dollars for MW-month contract extension basis.

The Commission finds that the CIP funding term of the proposed amendment is appropriate.

### **E. The Department's Recommended Modification**

Under the technology provision of the proposed amendment, National Steel's Service Requirement could be reduced if National Steel installs a new production process, provided that the plant's maximum production capacity is still used. The Department recommended monitoring the capacity use through a required filing. Minnesota Power did not object to the recommendation.

The Commission agrees that the filing will be a useful protection. The Commission will require Minnesota Power to submit documentation showing that National Steel has maintained the plant's maximum production capacity prior to entering into negotiations with the Company regarding a revised Service Requirement due to technological developments.

### **ORDER**

1. The Commission approves the July 29, 1994, amendment to the Service Agreement between Minnesota Power and National Steel.
2. Minnesota Power shall submit documentation showing that National Steel has maintained the plant's maximum production capacity prior to entering into negotiations with the Company regarding a revised Service Requirement due to technological developments.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)